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**MAY - 9 2005**

May 9, 2005

**Federal Communications Commission  
Office of Secretary**

**HAND DELIVERY**

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

Re: ~~REDACTED~~ - SUBJECT TO PROTECTION ORDER IN WC  
DOCKET NO. 05-75

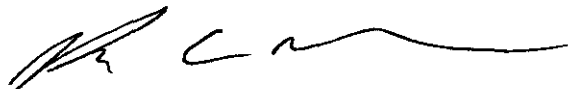
Dear Ms. Dortch:

Attached are redacted and original copies of the Declaration of Gary Zimmerman which we are filing today as part of our comments on Verizon Communications Inc.'s and MCI, Inc's Applications for Approval of Transfer of Control.

The Declaration is a "Confidential Filing" as defined by ¶ 3 of the Commission's March 10, 2005 Order specifying the procedures for filing proprietary or confidential information in this docket. As per the terms of that Order, I have attached one copy of the Declaration in its original form and two copies in redacted form for filing. The redacted copies are marked "REDACTED - FOR PUBLIC INSPECTION."

Please let me know if I can be of further assistance.

Sincerely,



Bruce L. Gottlieb  
Counsel to Broadwing Communications LLC  
and SAVVIS Communications, Inc.

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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Federal Communications Commission  
Office of Secretary

In the Matter of )  
 )  
Verizon Communications, Inc. and )  
MCI, Inc. Applications for Approval of Transfer )  
Of Control )  
\_\_\_\_\_ )

WC Docket No. 05-75

**DECLARATION OF GARY ZIMMERMAN**

1. My name is Gary Zimmerman. My business address is 1 Savvis Parkway, Town & Country, Missouri, 63017. I am Vice President of Global Client Service – Carrier Management for SAVVIS. I have worked for SAVVIS since 1995. My current responsibilities include negotiating contracts for special access circuits with other telecommunications carriers worldwide. I am also responsible for preparing performance “report cards” on all the carriers from whom SAVVIS purchases special access circuits on a quarterly basis. My organization is the focal point within SAVVIS for managing all issues and problems related to special access services.

2. The purpose of my declaration is to describe SAVVIS’ current use of special access circuits and the negative impact that the Verizon-MCI merger would, if consummated as proposed, have on the market for special access and on SAVVIS. As further described herein, the special access market is already highly concentrated, and it will become still more concentrated if this transaction is allowed to proceed. Indeed, the transaction could eliminate MCI as one of SAVVIS’ largest suppliers of special access circuits. In short, for the reasons set forth below, SAVVIS and similarly situated

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companies likely will face higher special access rates and diminished quality of service if this merger is concluded as proposed.

**1. SAVVIS IS A GLOBAL INFORMATION TECHNOLOGY SERVICE PROVIDER.**

3. SAVVIS is a global information technology services company with over 5,000 customer endpoints in the financial services, media, retail, professional services, healthcare, manufacturing, government (including the U.S. federal government) and other sectors. The company's revenues in 2004 exceeded \$600 million.

4. SAVVIS provides its customers with a full range of information technology services that allows them to establish large-scale managed internal networks, including (1) end-to-end large-scale managed Internet Protocol virtual private networks (known as IP VPNs); (2) hosting facilities, networks, servers, and storage offered through 24 data centers located in the United States, Europe, and Asia; (3) infrastructure tied to workflow applications that enhance the creation, production and distribution of digital content and streaming media; and (4) a broad range of network services to support voice, video, data, and web applications. These network services include providing businesses with public Internet access in the United States, Europe, and Asia at speeds from fractional T-1 to full OC192. Unlike Internet Service Providers ("ISPs") that provide only the "last mile" physical connection between end-users and the nearest network node connected to the public Internet, SAVVIS is a true Internet Backbone Provider ("IBP"), owning and operating the high-volume fiber "pipes" and associated transmission equipment that physically connect Internet nodes around the country and even the world. SAVVIS' network, however, reaches only its own customers – without peering between IBPs, the network would be an island of SAVVIS customers only. In other words, without peering

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interconnections between IBPs such as SAVVIS and competitors such as SBC, Qwest, AT&T, MCI, Level 3, Sprint, and Broadwing, the Internet literally would not work and data packets could not traverse the globe with the high-speed and low-cost universal connectivity that end-users have grown to expect.

5. Customers (including ISPs) can purchase SAVVIS' Internet backbone service either individually or in combination with the other services described above. For example, a business could use a SAVVIS private network to connect its offices and SAVVIS Internet backbone services to reach its customers or partners. For large enterprise or carrier customers, SAVVIS also offers High Speed Dedicated Internet Access (HS-DIA), which is unmanaged and delivered at speeds ranging from OC3 to OC192. SAVVIS offers its customers contracts that are typically one to three years in length. All of the SAVVIS Managed Service contracts contain Service Level Agreements (SLAs) with guarantees for network availability, throughput, latency, packet loss and jitter, and service credits for failure to meet them.

6. In order to provide its private networking and Internet backbone services, SAVVIS owns and operates an extensive infrastructure that includes approximately 50 MPLS switches, 200 backbone routers, 17,000 access devices at customer locations, and hundreds of Points of Presence, or PoPs, in 47 countries. This network is designed with highly redundant backbone infrastructure including diversely-routed long haul and local access connections from multiple carriers, and employs a ring architecture so that at least two different paths exist between switching facilities resulting in a self-healing, fault-tolerant network.

**II. THE MARKET FOR SPECIAL ACCESS SERVICES IS HIGHLY CONCENTRATED.**

7. SAVVIS uses special access circuits to provide tails (*i.e.*, loops) that connect end-user customers to SAVVIS' Internet backbone via points of presence ("POPs"). As a practical matter, SAVVIS always purchases "tails" from a third-party provider. SAVVIS does not self-provision its own loop facilities for three fundamental reasons. First, economies of scale make self-provisioning uneconomic. Most of the cost of deploying transmission facilities is in the supporting structures, placement, rights of way, and access to buildings, and not in the conductors (fiber strand or copper wires) themselves. Because the cost of the supporting structures is relatively insensitive to the number of lines deployed, the BOCs enjoy substantial economies of scale that competitors like SAVVIS simply cannot match. Second, transmission facilities are characterized by substantial sunk costs. An investment is sunk if, once made, it cannot be redeployed for some other use. Investments spent on trenching, structure, and rights of way for a loop clearly fall into this category. Indeed, it is basic economics that the need to incur significant sunk costs to deploy facilities that have substantial economies of scale establishes a significant barrier to entry. Finally, SAVVIS also faces other entry barriers, such as limited building access and access to rights of way that combine to make the deployment of loop facilities a practical impossibility in many circumstances.

8. In my experience, because competitive providers have not been able to replicate the incumbent LECs' transmission facilities, the market for special access services is highly concentrated. In the vast majority of cases, there are no practical alternatives to the BOCs' special access services. To date, CLECs have only established alternative

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facilities to a small fraction of buildings. Moreover, most of the major CLECs that provided alternative access have gone bankrupt.

9. Significantly, even in situations where CLECs do offer special access facilities, those companies most often merely resell special access provided by the BOC. As a practical matter, would-be competitors to the BOCs face most of the same barriers to the deployment of special access facilities that – as described above – SAVVIS faces in self-provisioning its own loop facilities. The market for special access services thus remains dominated by the BOCs, with the limited degree of competition that does exist depending substantially on the resale of BOC special access services by large IXCs (such as AT&T, MCI, and Sprint) and CLECs.

10. Despite the scarcity of alternatives to the BOCs, SAVVIS uses competitive providers of special access circuits whenever possible. Today, [REDACTED] of SAVVIS' special access circuits are provisioned by AT&T and MCI. Of those circuits, *approximately [REDACTED] are BOC circuits resold by AT&T and MCI.* Such circuits are generally referred to as "Type 2 circuits." A much smaller amount of the special access circuits purchased by SAVVIS are provisioned directly by the ILEC. These circuits are referred to as "Type 1 circuits." Though SAVVIS prefers to purchase Type 1 service, in reality, very few of the circuits purchased by SAVVIS are Type 1 circuits offered by competitors.

11. SAVVIS purchases the vast majority of its special access circuits from the large interexchange carriers primarily because it obtains better special access rates from the IXCs than it could from the BOCs. BOCs set rates for special access based on a carrier's "buy" or "commit to buy" rate. In other words, the BOC provides a discount to the

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carrier off the normal tariffed rate if that carrier commits to purchasing a set monetary amount of special access services each month, usually for a term of one, three, or five years. BOCs also typically sell special access circuits through a single contract that covers their entire region, and not on an MSA or route-specific basis. In my estimation, SAVVIS typically buys fewer special access circuits per month nationwide than the large IXCs such as MCI buy per month from *each* BOC. MCI thus gets a larger discount on special access than practically every other carrier, including SAVVIS, because it has a higher buy rate. MCI passes on this discount when it resells Type 2 special access circuits to SAVVIS. Hence, SAVVIS is able to leverage the IXC's buy rate to get a lower price (and better service) for special access than if SAVVIS bought directly from the BOC.

12. SAVVIS also purchases the majority of its special access circuits from IXCs, and not CLECs, because the IXCs have much larger networks. For example, I estimate that AT&T, MCI, and Sprint can resell special access services in every Local Access and Transport Area (LATA) nationwide. By contrast, XO – the CLEC with the largest national network – only serves approximately 10 percent to 15 percent of all LATAs. Although other CLECs have built networks in certain niche markets, no CLEC can rival the scope of the large IXCs. Thus, because the market for special access is defined by BOC region, SAVVIS primarily purchases special access circuits from the large IXCs. This is because purchasing from the IXCs allows SAVVIS to purchase circuits throughout a BOC region, or even throughout the nation, using a single contract. Indeed, in many markets, the large IXCs are the only alternative to the BOC. Thus, eliminating

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AT&T and MCI as competitive providers of special access circuits could leave only one competitive provider with a national footprint – Sprint.

13. Finally, it is SAVVIS' policy to buy from the IXC's whenever possible because managing relationships with the BOC's requires greater resources. Currently, SAVVIS employs five people to manage relationships with 20 carriers nationwide. However, if SAVVIS were to enter into an agreement with a BOC, it would have to double the size of its carrier management staff, because the BOC's are tougher to manage. Indeed, SAVVIS buys the majority of its special access circuits from AT&T and MCI because these large IXC's view SAVVIS as a significant and valued customer. The BOC's, by contrast, view SAVVIS as a "niche" carrier – and thus a less valued customer – based on our monthly recurring revenue, which falls far short of the large IXC's.

## II. SAVVIS' CONCERNS ABOUT THE MERGER

14. The merger between Verizon and MCI raises three primary concerns for SAVVIS' business. First, SAVVIS likely will lose one of its largest suppliers of special access circuits. Today, there are only three primary competitors in the special access market nationwide: AT&T, MCI, and Sprint. The merger of Verizon and MCI will therefore reduce the number of potential competitors in Verizon's region from three potential suppliers to two. Indeed, if MCI merges with Verizon, MCI likely will cease to provide Type 2 special access circuits to SAVVIS in Verizon's region. As a result, pricing could increase where MCI is no longer a competitive alternative to the BOC. And, other than possibly Sprint, no other carrier purchases the same volume of special access circuits as AT&T and MCI. This likely will leave SAVVIS with a single alternative provider with a national footprint for Type 2 special access circuits. Of



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course, Sprint may not have the buying power to be eligible for discounts that are comparable to those received by AT&T and MCI today. Thus, even if SAVVIS buys Type 2 circuits from Sprint, SAVVIS is likely to see a price increase.

15. Further, in today's market, MCI – by virtue of both its demand and its unused fiber capacity – exerts some disciplining effect on Verizon's special access pricing. MCI receives the most favorable special access rates and terms based on the fact that it is one of Verizon's largest special access customers, with a large amount of internal capacity. As a result of MCI's volume of demand, and the implicit threat that MCI could more aggressively groom circuits off Verizon's network onto its own or others, MCI is more able to secure the most favorable special access rates and terms. This exerts some discipline on special access rates in general. But if the merger is consummated, this discipline will no longer constrain Verizon. In short, MCI is one of Verizon's largest competitors and customers in the special access market. The loss of MCI is therefore likely to result in an increase in the rates paid by all special access customers within Verizon's region.

16. Moreover, it will be difficult for SAVVIS to move its special access circuits from MCI to another competitive carrier, such as Sprint. Moving an end user customer from one carrier to another takes a great deal of resources and may result in a service disruption. This jeopardizes SAVVIS' relationship with the customer. Further, SAVVIS might not be able to find another competitive carrier with a national footprint to replace MCI. As discussed above, very few providers can duplicate the ILEC's network – which currently provides distribution plant to every customer premises within its service area – because of the high fixed and sunk costs, economies of scale, and first mover advantages

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associated with deploying loops and transport. Thus, as a result of the merger, SAVVIS will have little choice but to purchase special access service ultimately from Verizon within its region.

17. Second, the acquisition of MCI by Verizon could degrade special access service quality for non-affiliated carriers. It is likely that as a result of the merger, Verizon will move all of MCI's special access circuits from third-party providers onto Verizon's own network to avoid losing customers through possible divestiture of these facilities as a condition of the merger. For instance, after AT&T acquired TCG, it flooded TCG with orders for special access circuits as AT&T tried to move customers on-net. As a result, circuit delivery intervals for any other company ordering special access loops increased dramatically. If Verizon uses the same strategy, the net result will be that service to non-affiliated carriers will decline as Verizon tries to process all of its orders from MCI.

Indeed, Verizon has every incentive to discriminate in favor of its new long distance affiliate, MCI. Likewise, the provision of special access circuits to non-affiliated carriers will also decline as MCI concentrates on moving its special access circuits onto Verizon's network, not the needs of its wholesale customers, including SAVVIS. This will render non-affiliated carriers such as SAVVIS non-competitive, because SAVVIS will not be able to deliver circuits to its end user customers within the same timeframe, and at the same level of service quality, as Verizon.

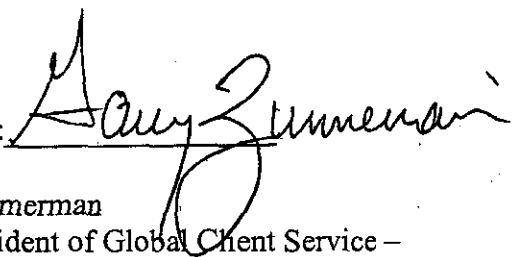
18. Third, the SBC-AT&T and Verizon-MCI combined companies could reach anti-competitive agreements for special access pricing to each other. The mergers, if consummated as proposed, would create two players with huge volumes of special access circuits. Based on their enormous buy rates, each BOC could offer the other deeply

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discounted special access services out-of-region. But no other carrier would be able to qualify for these sweetheart deals because they will never have the same volume of traffic as the BOCs. As a result, SAVVIS and other non-affiliated carriers will not be able to compete on price, because SBC-AT&T and Verizon-MCI will have lower input costs.

**VERIFICATION**

I declare that the foregoing is true and correct.

Signature: 

Gary Zimmerman  
Vice President of Global Client Service –  
Carrier Management  
SAVVIS Communications, Inc.

Dated: May 9, 2005